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Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007



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Re: UniSource Energy Services Progress Report
A.C.C. Decision No. 66028

Pursuant to A.C.C. Decision No. 66028, UniSource Energy Services (“UES”) files this progress report on the negotiations to restructure the Pinnacle West Capital Corporation (“PWCC”) Power Supply Agreement (“PSA”).

UES representatives met with PWCC on July 15, 2003 and September 23, 2003 to discuss restructuring the current PSA to reduce the overall cost of power supply to UES customers.

During the July 15, 2003 meeting, a general structure was discussed which both parties thought could be reasonable subject to reaching agreement on the specific details. UES and PWCC further corresponded on the idea in letters dated August 4 and August 28. These letters are included as confidential attachments to the Utilities Division Director.

UES drafted an outline of the structure with more detail and discussed it with PWCC in the September 23rd meeting. PWCC responded to the UES outline in a September 29 e-mail that included proposed indicative pricing. Both the UES outline and the PWCC response are included as confidential attachments to the Utilities Division Director.

Very truly yours,

LEWIS AND ROCA LLP

Thomas H. Campbell

cc: Ernest Johnson, Utilities Division Director (w/confidential enclosures)
A.C.C. Compliance Manager (w/o confidential enclosures)
All Parties of Record (w/o confidential enclosures)